United Nations E/1999/118

Economic and Social Council

Distr.: General
26 August 1999

Original: English

Substantive session of 1999
Geneva, 5–30 July 1999
Agenda item 13 (a)
Economic and environmental questions: Sustainable development

Letter dated 22 July 1999 from the Permanent Representative of Maldives to the President of the Economic and Social Council

I have the honour to forward herewith a letter addressed to you from Maumoon Abdul Gayoom, President of the Republic of Maldives, regarding the recommendation of the Committee for Development Policy to remove the Republic of Maldives from the list of the least developed countries.

I would be grateful if you could kindly bring the contents of this letter and of its attachment to the attention of the members of the Economic and Social Council, and circulate it as an official document, under agenda item 13 of the 1999 substantive session of the Economic and Social Council.

(*Signed*) Hussain **Shihab**
Permanent Representative

99-24704 (E) 270899

Annex

Letter dated 21 July 1999 from the President of the Economic and Social Council

I am writing to express my deep concern over the decision of the United Nations Committee for Development Planning at its 31st session in 1997 to graduate the Maldives from the list of Least Developed Countries after a follow-up review in the year 2000, especially in the light of recommendations made by its successor, the United Nations Committee for Development Policy at its first session earlier this year, regarding methods of assessment of LDC status. In particular, the proposal to consider vulnerability profiles only in marginal cases raises serious doubts that the question of vulnerability will be adequately addressed in the case of the graduation of the Maldives, despite its relevance to us.

Structural constraints to development

The Maldives is a small country with a population of around 270,000, which is widely dispersed over 200 islands of only a few hectares in size. *Therefore, our economy suffers from serious diseconomies of scale, and the lack of natural resources further constrains the capacity for economic diversification, which results in a high degree of dependence on only two sectors, namely, fisheries and tourism.*

A major challenge facing our economy is to sustain its growth momentum at a level sufficient to absorb the high rate of

population growth. Although a number of important measures have been and are being taken to reduce population increase, only continued social and economic development would ensure that the population growth rate continues to decline. An effective population policy and the socio-economic gains of the past two decades have led to a drop in population growth rate from 3.4 per cent in 1990 to 2.7 in 1995. Despite that drop, there is still a very high dependency ratio with over 46 per cent of the population being under the age of 15, giving rise to increasing demand for social services.

Recognising that the next major step in an effective population policy would be population consolidation through internal transmigration to larger and more economically viable islands, we have been implementing transmigration programmes for many years. However, the continuation of these programmes will require tremendous investment whose burden cannot be met without considerable development assistance.

The fragile environment of the country further constrains the scale and scope of economic activities. Although we pursue sustainable development policies, our islands are placed at risk from global processes beyond our control such as increasing pollution, global warming, climate change and sea-level rise. In recent years, storms have increased in frequency and ferocity. On one occasion the damage inflicted cost 22 per cent of the GDP. Last year, sustained high temperatures caused widespread coral bleaching. At present, coastal erosion is threatening settlements on a large number of islands.

Problems posed by vulnerability

A recent study by the Commonwealth has revealed that the Maldives is the ninth most vulnerable country in the world. We, too, have recently undertaken a comprehensive study on vulnerability and poverty, taking into account both income and non-income factors. This work has brought to light important new dimensions of internal vulnerabilities that exist in the Maldives.

The economy remains highly vulnerable to external shocks due to product and market concentration, as well as due to the nature of the main economic activities. Economic downturn in tourist markets or even conflicts in parts of the world that are unrelated to or far away from the Maldives or its markets, such as the Gulf War, have very badly affected the tourism industry. We dread to think what the impact would be from crises closer to home or to our markets. While the direct contribution from tourism stands at the very high level of 20 per cent of GDP, if related inputs are accounted for, the dominance of the industry would be overwhelming, and expose the real extent of the risk from exogenous shocks. At the same time, the fishing industry, which is the biggest source of employment, is extremely vulnerable to fluctuations in the world market. At the present time, depressed world market prices of fish have precipitated a crisis in the sector, increasing the outflow of investment from it.

In order to reduce vulnerability and achieve stability in export earnings, there is an urgent need to explore ways to diversify and restructure the economy. That would be an

enormous undertaking, one that would take us closer to greater self-reliance. However, it too is a step that requires in the immediate future considerable concessionary financing. Moreover, in a world where globalisation has gained greater pace, such restructuring would be essential to enable us to participate in the global economy.

Misleading criteria

The decision to earmark the Maldives for graduation has presumably been taken as a result of the high scores for the country in recent triennial reviews in the indices used. *However, the application of the criteria on the Maldives has produced misleading results.* We believe that per capita GDP taken in isolation is an inappropriate yardstick for the Maldives. Given the high cost of living, purchasing power parity is a better measure for comparison. Alternatively, even GNP would have shown a more realistic picture of the economy as it is of far lesser value than the GDP.

For the Augmented Physical Quality of Life Index (APQLI), the high score was based on health, nutritional and educational achievements. *The statistics do not give the whole picture.* In particular, they say nothing about either the circumstances under which that progress was achieved or the conditions that are necessary for sustaining such progress. Indeed, neither do they indicate the remaining challenges in the social sector nor do they show what the key country-specific difficulties are that cannot be resolved without considerable external support. Despite good

scores on average calorie intake, for example, there is still in the Maldives widespread malnutrition and periodic shortages of food due to the geophysical conditions of the country. Comparable challenges are faced in other social sectors as well.

Equally disconcerting is the Committee's finding that the Maldives has a highly diversified economy, only a few percentage points behind the larger South Asian economies. Indeed, it is not clear to us why the Economic Diversification Index (EDI) for the Maldives had fluctuated so sharply in the last three triennial reviews, scoring 18 in 1991, 11 in 1994 and 30.5 in 1997. *Such fluctuation only highlights the country's vulnerability and strengthens the case for careful scrutiny of the real situation.* The newly proposed Economic Vulnerability Index (EVI) may further distort the actual economic status of the Maldives, given the peculiarities of its geophysical layout and economic structure.

Costs of graduation

We are concerned that the Maldives might be graduated without a full assessment of what that decision would cost us. We believe that prior to the graduation of any state, the Committee should complete the work it was previously asked to do on assessing more comprehensively the benefits derived by states by inclusion in the list. We strongly feel that the current proposal by the Committee to examine the impact of globalisation on LDCs in more detail must be followed up before any state is graduated, especially in the light of its earlier recommendations on the subject. Given the economic constraints facing our country, the mere designation of

the Maldives as a non-LDC is not going to increase in any way the options open to it to overcome its developmental constraints. On the contrary, graduation would only increase its vulnerability as it will certainly be accompanied by a considerable reduction in external assistance in the form of grants and concessionary loans. As a small, narrowly-based economy which faces major obstacles to integration into the world economy, the Maldives is incapable of carrying a heavy debt burden or drawing from international capital markets on commercial terms.

For the above compelling reasons, I appeal to Your Excellency that the review pertaining to the question of the graduation of the Maldives be undertaken only in the light of the full facts of the case. These should include a country specific vulnerability profile whether or not the Maldives is ranked as a marginal economy, a thorough assessment of the costs of graduation, and an appropriate consideration of the impact of globalisation.

(*Signed*) Maumoon Abdul **Gayoom**